

## **AGENCY REQUEST LEGISLATION** *(Authorizing Uses of Prior Appropriation) - Bill Z-0170*

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### **STATEMENT OF NEED**

Federal funding for the Unemployment Insurance Program (UI) is insufficient to sustain current operations. Underfunding began in Fiscal Year 2003 when the U.S. Department of Labor instituted a new funding formula (Resource Justification Model – RJM), which has had many logic flaws and was implemented prematurely. Our state has suffered significant reductions in federal funding since that time, despite the heavy demand for unemployment insurance benefits by Washington citizens who have lost their jobs through no fault of their own.

The difference between the true cost of the unemployment insurance system and the new federal funding is approximately \$9 million per year. Up to this point, the department has managed within this inadequate federal funding by scaling back all discretionary spending, canceling technology projects, leveraging other funds, instituting a reduction-in-force, closing four adjudication satellite offices and invoking an agency-wide hiring freeze. The department continues to explore options for reducing costs while seeking to sustain a quality unemployment insurance service delivery system for claimants and employers. Through these actions, the department expects to manage the underfunding for federal fiscal year 2005 (Oct04-Sep05) to within a \$4 million deficit.

The department is proposing for the 05-07 Biennium that an alternative fund source (Reed Act) be used to sustain state-driven functions (see ESD 05-07 “State Choice” Decision Package AB). But approval of this approach will not solve the deficit in the current 03-05 biennium.

In Senate Bill 6099, an \$11.5 million appropriation from Reed Act funds was made in 2003 to fund implementation costs of 2ESB 6097 (Chapter 3 Laws of 2003, 2<sup>nd</sup> Special Session). The department has been very careful to assign only the actual costs of implementing 2ESB 6097 to this resource, and anticipates that the total appropriation will not be spent on activities associated with 2ESB 6097. The forecasted unexpended appropriation balance available is \$3.6 million.

The department therefore seeks the ability to leverage the unexpended balance within the existing 03-05 appropriation of Reed Act funds to mitigate the federal fiscal year 2005 shortfall of federal funds.

### **MAJOR PROVISIONS OF NEW LAW**

This proposal would expand the allowable use of the \$11.5 million appropriation from Reed Act funds to mitigate federal underfunding of the UI program in addition to its current use for the implementation costs of 2ESB 6097 (Chapter 3 Laws of 2003, 2<sup>nd</sup> Special Session). The language change would allow the department to use a portion of these resources which otherwise would remain unspent before June 2005.

### **CURRENT LAW & PRACTICE**

Current federal and state laws prohibit the use of Reed Act funds for administrative purposes without a specific appropriation from the state legislature. The existing law (SB 6099) restricts the use of the 03-05 appropriation to be used for implementation costs of 2ESB 6097 - Revising the Unemployment Insurance System. Federal deficit mitigation for the UI system is not an authorized use of the current appropriation.

## IMPACTS

If the department is not authorized to utilize this unexpended appropriation balance for deficit mitigation, then action must be taken to reduce UI program outlays by approximately \$4 million by September 30, 2005.

Providing this new spending authority for the existing appropriation will allow the department to avoid a reduction of an estimated 107 FTE staff that are performing UI functions at an average cost per position of \$50,000. The department could maintain the capacity of the TeleCenter system to take calls from individuals and determine eligibility for benefits, and maintain current levels of service in Tax & Wage Administration for registering employers, collecting UI taxes and auditing employer accounts. Client wait times and the timely payment of benefits would be able to remain at current levels. Staff devoted to the detection and collection of benefit overpayments would not need to be reduced.

The fiscal impact of this change in spending authority is zero since the Reed Act resources are already appropriated for the 03-05 biennium. This request simply expands the authorized use of the existing appropriation.

**OTHER GOVERNMENT AGENCIES AFFECTED** None.

## STAKEHOLDERS AND THEIR POSITIONS ON THE PROPOSAL

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